

Message Text

LIMITED OFFICIAL USE

PAGE 01 SAN JO 05336 221440Z

53

ACTION ARA-10

INFO OCT-01 ISO-00 PA-01 PRS-01 USIA-06 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

TAR-01 /061 W

----- 125781

R 192358Z DEC 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 2348

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY TEGUCIGALPA

AMEMBASSY SAN SALVADOR

AMEMBASSY PANAMA

LIMITED OFFICIAL USE SAN JOSE 5336

E.O. 11652: N/A

TAGS: ECON, ETRD, CS

SUBJECT: POSSIBLE FOREIGN EXCHANGE SURCHARGE

PASS ROCAP

REF: SAN JOSE 4214 (NMWAL)

SUMMARY. A SERIES OF FOREIGN EXCHANGE SURCHARGES FROM 10 TO 70 PERCENT ARE BEING PROPOSED BY THE CENTRAL BANK PRESIDENT, BERNAL JIMENEZ. THE MEASURES, WHICH HAVE NOT YET RECEIVED FINAL APPROVAL WITH THE GOVERNMENT, ARE DRAWING STRONG PROTESTS FROM MERCHANTS. THEY WOULD, IN EFFECT, PARTIALLY AND SELECTIVELY DEVALUE THE COLON AND CREATE WHAT WOULD IN SUBSTANCE BE A MULTIPLE EXCHANGE RATE SYSTEM. END SUMMARY.

1. COSTA RICA WILL IMPOSE FOREIGN EXCHANGE SURCHARGES

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SAN JO 05336 221440Z

IN EARLY JANUARY FROM 10 TO 70 PERCENT ON CONSUMER GOODS

IMPORTED FROM OUTSIDE OF CENTRAL AMERICA, ACCORDING TO LOCAL NEWSPAPER STORIES BASED ON INFORMATION FROM CENTRAL BANK PRESIDENT BERNAL JIMENEZ AND OTHER BANKING SOURCES. THE RATES WILL BE 10, 30, 50, OR 70 PERCENT IN ACCORDANCE WITH THE ESSENTIALITY OF THE PRODUCTS, THE LEAST ESSENTIAL PRODUCTS PAYING THE HIGHEST RATES. THE SURCHARGES ARE EXPECTED TO YIELD 90 MILLION COLONES PER YEAR REVENUE WHICH WILL BE USED TO STIMULATE EXPORTS, PROVIDE EXPORT INSURANCE, ENCOURAGE TRADING COMPANIES AND TOURIST PROMOTION, AND PROVIDE CREDITS FOR INVESTMENT IN INDUSTRY AND NON-TRADITIONAL AGRICULTURAL EXPORTS. SOME OF THE FUNDS MAY ALSO BE USED TO INCREASE EXPORT REBATES UNDER THE CAT SYSTEM. A SUPPLEMENTAL MEASURE WILL RESTRICT TRAVEL ABROAD.

2. THE SUBSTANCE OF THE ABOVE WAS CONVEYED A WEEK AGO TO EMBOFF IN A CONFIDENTIAL CONVERSATION WITH BERNAL JIMENEZ (REFTEL). EMBOFF LEARNED TODAY FROM ANOTHER HIGH CENTRAL BANK OFFICIAL THAT THE MEASURES WERE ACCURATELY DESCRIBED BY THE NEWSPAPERS BUT THEY HAVE NOT YET BEEN APPROVED BY THE BOARD OF DIRECTORS OF THE CENTRAL BANK. THEY HAVE BEEN APPROVED BY BERNAL JIMENEZ, AND BANK OFFICIALS ARE WORKING ON THE SPECIFIC LIST OF PRODUCTS TO WHICH THE SURCHARGE WOULD BE APPLIED. THE CENTRAL BANK OFFICIAL CONFIRMED THAT THE FOREIGN EXCHANGE SURCHARGE WOULD BE SUPPLEMENTAL TO THE VERY HEAVY CONSUMPTION TAXES (RANGING FROM 50 TO 100 PERCENT) WHICH ARE ALREADY PAID ON LUXURY OR SEMI-LUXURY IMPORTS. HOWEVER, THE TOTAL OF THESE TWO TAXES COULD NOT EXCEED A CEILING WHICH HAS BEEN ESTABLISHED BY THE COSTA RICAN LEGISLATIVE ASSEMBLY WHICH HE BELIEVED TO BE IN THE AREA OF 140 PERCENT.

3. AS REGULATIONS OF THE CENTRAL AMERICAN COMMON MARKET (CACM) PROHIBIT FOREIGN EXCHANGE SURCHARGES ON IMPORTS FROM WITHIN THE REGION, CACM TRADE WILL BE EXEMPT FROM THE PROPOSED SURCHARGES. HOWEVER, INTERNAL CONSUMPTION TAXES WILL PROBABLY BE INCREASED ON CERTAIN PRODUCTS THAT ARE IMPORTED FROM OTHER CENTRAL AMERICAN COUNTRIES. THE SAME PRODUCTS PRODUCED IN COSTA RICA WOULD ALSO BE SUBJECT TO INCREASED CONSUMPTION TAXES, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SAN JO 05336 221440Z

THEREBY PRESERVING EQUALITY OF TREATMENT.

4. REACTION FROM LOCAL BUSINESS SOURCES HAS BEEN ABOUT AS WOULD BE EXPECTED. CHAMBER OF COMMERCE PRESIDENT, EDWARD MENDEZ, SAID THAT THE SURCHARGES COMING ON TOP OF ALREADY HEAVY CONSUMPTION TAXES RISK "STRANGLING AND LIQUIDATING THE COMMERCIAL SECTOR, AND WILL CAUSE A FURTHER INCREASE IN THE ALREADY LARGE

NUMBER OF COSTA RICANS WHO GO TO NEIGHBORING COUNTRIES TO MAKE THEIR PURCHASES". HE SAID THAT THE MEASURES WOULD BE COUNTER-PRODUCTIVE IF THE GOVERNMENT DOES NOT IMMEDIATELY PROCEED TO REDUCE PUBLIC EXPENDITURES AND DEFINE AN ADEQUATE MONETARY AND CREDIT POLICY.

5. THE PRESIDENT OF THE CHAMBER OF INDUSTRIES, ON THE OTHER HAND, CALLED THE MEASURES NECESSARY AND SAID HE IS EXPECTING GOOD RESULTS FROM THEM. AS RAW MATERIALS AND INTERMEDIATE GOODS ARE EXEMPT FROM THE SURCHARGES, LOCAL MANUFACTURERS' AND ASSEMBLERS' COSTS WOULD NOT BE INCREASED AND THEY WOULD BE GIVEN A MUCH LARGER MARGIN OF PROTECTION AGAINST IMPORTS. CLEARLY THEY WOULD HAVE LITTLE CAUSE FOR COMPLAINT.

6. THE GENERAL LINES OF THE CENTRAL BANK PROPOSAL ARE NOT SURPRISING, AS ADDITIONAL MEASURES TO PROTECT THE BALANCE OF PAYMENTS HAVE BEEN EXPECTED AND ARE NEEDED. WHAT IS SURPRISING IS THE SIZE OF THE PROPOSED SURCHARGES. TRULY, THEY WILL BE A HEAVY BURDEN TO THE COSTA RICAN CONSUMER AND A STRONG DEPRESSANT TO MANY COMMERCIAL ESTABLISHMENTS.

7. THE PROPOSED SURCHARGES ON EXCHANGE RATES WOULD REPRESENT A PARTIAL AND SELECTIVE DEVALUATION THAT WOULD CREATE, IN EFFECT, A SYSTEM OF MULTIPLE EXCHANGE RATES. THE SCHEME HAS SOME OBVIOUS WEAKNESSES. IT WOULD GIVE GROSSLY EXCESSIVE PROTECTION TO LOCAL MANUFACTURERS AND ASSEMBLERS THEREBY ENCOURAGING THEM TO MAKE UNJUSTIFIED PRICE INCREASES, UNLESS THE GOVERNMENT IMPOSES CONTROLS UNDER THE CONSUMER LAW. IT WOULD NOT PROVIDE THE STIMULUS TO TOURISM AND TO THE PENSIONADO MOVEMENT (BOTH OF WHICH ARE SIGNIFICANT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 SAN JO 05336 221440Z

FOREIGN EXCHANGE EARNINGS) THAT WOULD HAVE BEEN PROVIDED BY A GENERAL DEVALUATION. ALSO, MANY OF THE ARTICLES THAT WILL PROBABLY BE AFFECTED ARE NOT TRUE LUXURIES. SOME, LIKE STOVES AND REFRIGERATORS ARE NECESSARY PURCHASES FOR NEW HOUSEHOLDS AND FOR THOSE WHOSE OLD APPLIANCES HAVE WORN OUT.

8. IT WILL BE INTERESTING TO SEE WHETHER THE COSTA RICAN GOVERNMENT GIVES FINAL APPROVAL TO THESE MEASURES. THE MERCHANTS ARE ALREADY PROTESTING STRONGLY AGAINST THE SURCHARGE AND MANY COSTA RICANS ARE INCENSED ABOUT THE PROPOSED TRAVEL RESTRICTIONS. THE GENERAL PUBLIC HAS ACCEPTED THE HEAVY CONSUMER TAXES THAT HAVE BEEN APPLIED TO THE LUXURY AND SEMI-LUXURY GOODS FOR SOME PAST

YEAR, BUT IT IS NOT AT ALL CERTAIN THEY WILL ACCEPT
WITHOUT PROTEST A FURTHER TAX ON THOSE ARTICLES. NEWS
OF THE PROPOSALS MAY HAVE BEEN RELEASED PRIOR TO THEIR
APPROVAL IN ORDER TO WEIGH THE PUBLIC REACTION.
TODMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, FOREIGN EXCHANGE RATES, SURCHARGES, PUBLIC ATTITUDES
Control Number: n/a
Copy: SINGLE
Draft Date: 19 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANJO05336
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750444-0227
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751223/aaaaauem.tel
Line Count: 174
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 SAN JOSE 4214
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 JUN 2003 by WorrelSW>; APPROVED <12 AUG 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE FOREIGN EXCHANGE SURCHARGE PASS ROCAP
TAGS: ECON, ETRD, CS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006